GIBSON
TANKER REPORT

22nd December 2011

THE GOOD, THE BAD, AND THE UGLY

If 2010 could be described as a difficult year for tankers, then 2011 could at best be described as even more challenging. The steady supply of new tonnage entering the fleet contributed to the dramatic fall in earnings particularly for the crude carriers. Deliveries of VLCCs averaged just over one a week (58) while a similar picture was apparent for the Suezmaxes (44 deliveries). With almost all single-hull tonnage out of the tanker market, this year is closing with first generation double-hulls finding trading conditions increasingly tougher as some charterers show a preference for younger tankers. We are beginning to see teenage VLCCs being sold for demolition as asset values for 15 year old units gets closer to the scrap price. Thankfully, we have seen a dramatic fall in tanker ordering, especially for crude carriers although there are several cash rich owners waiting to pounce as asset prices continue to fall. Increases in the oil price have also elevated bunkers prices by about a third since December last year, forcing owners to be more creative with speed and consumption as some owners opt for slow steaming. With owners under considerable financial pressure, several companies have had to restructure finance and debt and a couple of US stock market companies have been forced to file for Chapter 11 to protect themselves from bankruptcy.

With very little floating storage in play (other than Iranian) the tanker market was more influenced by political events, in particular Libya. The loss of 1.6 million b/d of Libyan light sweet crude with 80% destined for European refineries meant that those replacement cargoes had to be sourced from outside the region. The tragic events following the Japanese tsunami drastically reduced demand as a consequence of the closure of refineries for safety checks. Rates plummeted in March for the VLCCs and even fell into negative earnings in the third quarter. China's demand for crude continues to support the tanker market and oil demand continues to rise. However, tanker owners (& banks) need faster economic growth than current predictions to absorb new tonnage.

	December 2010		December 2011		High / Low 2011
	WS	TCE/day	WS	TCE/day	
VLCC Rates: Mid East Gulf - Japan	53	$12,000	58	$13,000	WS 82 / WS 40
Suezmax Rates: West Africa – USAC	102	$24,000	90	$20,000	WS 112 / WS 57
Aframax Rates: North Sea - UKCont	194	$65,000	126	$24,000	WS 150 / WS 80
55k Naphtha: Middle East – Japan	131	$9,000	120	$4,750	WS 155 / WS109
37k Gasoline: UKCont – US	193	$12,250	229	$21,750	WS 242 / WS122
	End 2010		End 2011		
VLCC Total S/H D/H	42	507 (92%)	29	566 (95%)	
Suezmax Total S/H D/H	10	399 (98%)	8	438 (98%)	
Aframax/LR2 Total S/H D/H	41	846 (95%)	29	888 (97%)	
S/H in existence (over 10,000 dwt)	26.5 M dwt (382 vsls)		19.2 M dwt (300 vsls)		
OBOs O/Os 10,000 dwt+ (number)	84		61		
Tanker Orderbook: million dwt (10,000 dwt+) number	117.3 M dwt 896 excl. options		79.1 M dwt 612 excl. options		
VLCC's On Order	188 (58.7 M dwt)		120 (37.8 M dwt)		
New Deliveries (10,000 dwt+)	39.8 M dwt (374 vsls) (Jan – Dec)		37.3 M dwt (298 vsls) (Jan - Nov)		
Brent Oil Price (ICE Close) High/Low	$94.14/bbl (Dec30th)		$107.71/bbl (Dec21st)		$93.33 / $126.65
Bunkers 380cst Fujairah / Rotterdam	$500 / $486 tonne		$664 / $623 tonne		
World Oil Production (November) OPEC crude production Non OPEC -inc OPEC NGL &	85.8 M b/d (+2.6%) 29.2 M b/d (+0.3%) 56.6 M b/d (+3.9%)		87.8 M b/d (+2.3%) 30.7 M b/d (+5.1%) 57.1 M b/d (+0.9)		
Tankers Demolished (10,000 dwt+)	12.0 M dwt		9.0 M dwt		
Lwt price - China / India	$425 / $480		$410 / $490		
VLCC's sold for scrap dwt / number	14 vessels / 3.6 M dwt		12 vessels / 3.4 M dwt		
Tanker actual total losses - no. (dwt)	None		None		
US$:£1	$1.559		$1.566		

Best wishes for a happy Christmas and a prosperous New Year to all our clients and friends, from the Tanker Department, thank you for your support during 2011.

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CRUDE

Roughly one third of the January VLCC programme from the Middle East Gulf has been taken care of but there has been absolutely no impact upon rates over the past week. Levels remain in the mid/high WS 50's East and not much better than WS 36 to the West. The holidays will make it hard for any momentum to build, but equally the fewer 'fixing days' does at least mean that Owners can hope for some concentrated activity that may - perhaps - allow for some redress, though the more serious contender for that ray of hope will be a continuation of the heavy fixing in the Atlantic zone. Suezmaxes saw a little more action than of late, and particularly to the West. Unfortunately for Owners, there was sufficient competition to keep rates stuck at no better than 135,000 by WS 55 West and WS 85 East with no real belief of a significant gain in the short term. Aframaxes failed to make the desired gain, and rates shifted sideways at 80,000 by the WS 120 level for Singapore, and little early change is anticipated.

Suezmax Owners in West Africa lost the initiative as Charterers became more disciplined in their fixing strategy, and a number began to cash their chips in prior to the holiday. The Mediterranean then took a further turn upwards, and now there is a slightly more bullish sentiment growing. Rates initially ticked lower to 130,000 by WS 85 for US Gulf, and 87.5 for Europe, but then stabilised at that level, and now threaten to regain some territory. VLCCs had an extremely busy time of it throughout the Atlantic that noticeably tightened January availability here. Rates pushed up to 260,000 by WS 65 for both US Gulf and East options with just over USD 4 m paid for a run to East Coast India. With an increasing reliance upon Eastern ballasters, any uptick in the AG will have a magnified effect here.

Delays in the Turkish Straits continued to build, and that started to have more of an impact upon tonnage lists so that by the weeks' end early dates showed aframax rates as high as 80,000 by WS 240+ cross-Mediterranean. Suezmaxes also benefitted, and more so once the smaller size ramped. Black Sea/Euromed deals moved to 135,000 by WS 130 and will maintain the higher values over the holiday period.

Aframaxes in the Caribbean found few local reasons to provide support, and had to rely upon the strength across the pond to hold levels from collapsing below 70,000 by WS 115. Now the holidays are upon us, and things should go very quiet. VLCCs, on the other hand, saw a veritable tidal wave of Eastern interest - mainly Chinese - that allowed for rates to move up to approaching USD 4.5 m for Caribbean to Singapore, and Owners will be hard to chip lower for some time, even if the cargo flow diminishes.

The North Sea aframax scene wasn't quite as excitable as the Mediterranean, but was steady enough for the market to start to ride up in sympathy to 80,000 by WS 145 cross-U.K. Continent and 100,000 by WS 110 from the Baltic with more upside likely over the coming period. Suezmaxes hardly featured, but 135,000 by WS 77.5 would be a reasonable call for runs to the US Gulf. VLCC found themselves in the spotlight, and Owners eventually managed to force rates to Singapore to USD 4.4 m, where they should hold over the near term.

PRODUCTS

Largely bleak midwinter in the East but plenty of festive cheer in the West!

A feeble end of the year in the Middle East for the big ships. There is a little momentum on the LR2's as tonnage is running thin. Owners did manage to force rates up a few points to 75,000 x WS 109 for AG/Japan. Next deal might be WS 112.5-115 levels, but there will be a large degree of resistance from Charterers and it is far from a forgone conclusion that rate will rise above WS 110. Not seen anything going West for a while, estimates are that next done will be USD 2.45 m for AG/U.K. Continent.

LR1's continue to limp along, just managing to keep rates from sinking any lower, but it's not looking great. December loading cargoes have all been fixed away now and the list of ships available for loading in 1-10 January looks too long. Rates are expected to remain flat over the coming Christmas holidays: last done AG/Japan is 55,000 x WS 120, AG/U.K. Continent is fixing away at USD 1.825 m.

The MR market in the AG was quiet with good number of ships on the position list. This increased the pressure on Owners to accept lower rates before the holiday with AG-West Coast India/East Africa being the voyage most in demand as it secures lengthy coverage for Owners into the New Year. Rates for the African voyages have slumped to WS 240 for East Africa and WS 220 x 35kt on subs for South Africa at the time of writing. Naptha movements have slipped to WS 150 basis 35kt and Jet movements to the U.K. Continent are assessed around USD 1.55 m. Towards the end of the week there have been a little more local short haul activity offering some coverage for Owners but rates are slipping with USD 200k on subs for a ex AG voyage. In addition, the low demand for MRs in Singapore encouraged some Owners to ballast to the AG in hope to find cargoes and that increased the potential of more depressed market!

In the Far East it has been another very quiet week with little to report and freight rates remain steady. In the North there has been some delays with congestion in Japanese ports but there has been prompt tonnage available so replacements for late vessels has not come at a premium. Looking ahead there is some reports of bad weather in the South China Sea to come but at this stage there the outlook is steady. As a reminder: South Korea/Singapore is rated at a lumpsum of USD 400k; Singapore/Japan is WS 150 x 30kt and Singapore/Australia is WS 202.5 x 30kt.

Yet another busy week in the Mediterranean market, as Charterer's moved to cover cargo's over the Christmas and New Year period. Cross-Mediterranean fixing 30 at WS 230 levels and a few Owners fixing a little higher for prompt or specialist cargo's. The Black Sea exports were steady, but didn't appear to achieve a premium over the cross-Mediterranean market trading 30 at WS 230 levels as well. MR's opening in the Mediterranean were in short supply all week and ballaster's were few, so with a busy TC2 market and MR cargoes loading in the Mediterranean competing, rates rose sharply with transatlantic discharge considered 37 at WS 230. Prospects going East not as attractive on account of a slower market and UMS heading for Red Sea / AG discharge saw ideas arranged around the USD 1.1-1.2 m / 1.2-1.3 m levels on an MR.

The Continent market has gone from strength to strength this week in the final run up to Christmas. TC2 picked up to WS 230 basis 37kt, as tonnage for December thinned out rapidly. Handies were trading 33x245-250 for transatlantic and West Africa, and for ice liftings ex Baltic were trading at WS 205-210+ basis 30kt. Baltic / Continent on flexies was fixing WS 250 basis 22kt. Naturally as MR's diminished on the Continent, Charterers turned their sights to the LR's which quickly got tight, and Owners now talking WS 145-150 levels basis 60kt, and USD 2.5 m levels for Continent / Far East movements.

The Caribbean has continued the trend with the rest of the Western CPP markets. A combination of cargoes both upcoast to the US Atlantic Coast and backhaul squeezed rates up to WS 215 basis 38kt for Caribbean upcoast, and WS 162.5 on subjects at time of writing for backhaul liftings to U.K. Continent-Mediterranean ex US Gulf.

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